

CHAPTER - VI

CONCLUSION

A BRIEF COMPARATIVE ACCOUNT OF INDIGENOUS BANKING

The development of the indigenous banking in the Baroda State can be broadly compared with that of their counterparts in the 18th century northern Indian society. The rise of the regional states was the result of the breaking down of the Mughal Empire. In a similar way, the Baroda State had emerged after the break up of the Maratha confederacy in the middle of the eighteenth century. The initial economic collapse was visible in both the set ups, but the economy established itself especially with the trading community expanding towards larger areas. This was a subtle social change, which resulted in the 'commercialization of royal power'. The new elite section was drawn from entrepreneurs who could mobilize both military forces and capital.

Viewing from the larger perspective of this social change in the 18th century, C.A. Bayly gives a clear picture of their emergence with the imperial decline (Mughals). Certain social groups which had long been forming, and were politically dwarfed by the Mughal nobility began to emerge more clearly into limelight, for instance, first, the so called revenue-farmers or entrepreneurs in revenue, whose relationship to the regional rulers was largely mercenary and contractual unlike that of '*mansabadars*', who were bound by loyalty or by military ethos. Secondly, Indian merchant-bankers appear to have become politically more important in the 18th century. Rather than receiving capital from the

nobles, big merchant houses now lent money to rulers and nobles. As the Mughal treasury collapsed, they became more important in India's capital market, moving money from one part of the country to another through *hundis*. In this capacity they came into contact with foreign merchants, supplied them with financial resources, and at the same time benefited from the European growing political influence. By the middle of the 18th century, indigenous banker-merchants had a strong interest in all the major States that emerged from the decline of the Delhi power. Even in the far south where the Mughals had never had much control, combinations of revenue farmers and local merchant-bankers wielded much influence in the politics of the small military States.¹ The Baroda State also observed the same changes.

The new elite section drawn was from entrepreneurs who could mobilize both military forces and capital. In northern India, the fortunes of the new magnates and fiscal barons had rested on the networks of skills and credit, created by the moneylenders. In the case of Baroda State, they were these very banker-merchants who due to opportune circumstances had risen to that status.

In north India, the paradox of the 18th century was the co-existence of areas of local prosperity, with local political turbulence and agricultural decline. It also proved to be a period of decline for the Indian commercial towns and traders. Along the coasts, the British had established an unshakable hegemony. Old Gujarati houses had declined in Bengal, as the emergence of regional states had severed their routes. Indigo and textile exports through Surat had fallen off. But in Gujarat, volumes of Indian produce continued

to find their way to foreign markets, albeit by different hands and through different ports. The persistence of revenue payment in cash showed the capacity of the commercial community to adjust to new political conditions. The trading and commercial activities in western India had also declined due to the shifting of the commercial centre from Surat to Bombay and Bengal. As a result, the merchant community migrated from Ahemdabad and Surat to their neighboring areas, especially to Baroda State.

In the latter half of the 18th century, the redeployment of the merchant capital after the decline of trade was increasingly seen in the case of 'cash-hungry' states. A few of them rose to great heights briefly commanded by the likes of Jagatseths of Bengal. This had led to the emergence of new elites within the politics of successor regimes. In Baroda State, the indigenous bankers like HariBhakti, Khushalchand Ambaidas and Mairal Narayan were such cases. However their participation did not result in the emergence of an Indian bourgeoisie, capital controlled by the indigenous bankers had become a junior partner in the politics of the land, the kinship had become commercialized. But the capital was not applied directly in the creation of new modes of production. In both the cases there was a creation of a unified, elite class.

Their independence was expressed through corporate institutions and rights recognised by the rulers.

In the case of the Baroda State, the emergence of banking community that was to obtain a considerable influence in the 19th century had come from the banker-trader suppliers of

Maratha armies. C.A.Bayly had shown the same pattern visible in the rest of India, whereby Chaube Brahmins, Rajasthani Bohras, Agarwal and Khatri had emerged in central India. In Punjab the Nanakpanthi Khatri and Aroras. In the south, Kannada merchant and local *Chettis* slipped into this new position. It was from these groups, that much of India's modern industrial and business class was recruited. Therefore the political influence of the banker-trader was the common feature of the late 18th century regimes.

The new, rising power, the East India Company was able to exploit the ambiguous relationship between the rulers and the merchant, in the Indian political practice. Besides the expansion of the merchant class, under the regional states provided them with networks of facilities, which transported their trade, goods, supported these armies and under-pinned their revenue systems. Without the banker-trader of Benaras, Surat or Baroda, the British would have found it more difficult to succour out their fragile outposts in Bombay and Madras for the surplus revenues of Bengal.

According to Laxmi Subramaniam, the process of their involvement had begun with their extension from Bengal to other parts of India. The crucial event in the course of history was the defeat of the Marathas by the British at the start of the 19th century. This had initiated a process of capital transformation in which the indigenous bankers had played a central role. In the 17th and 18th centuries, the British had relied heavily on indigenous banking firms to finance their exploits in India. From 1790 onwards the Bombay government began to look for ways to free themselves from such dependence, which was

seen as unhealthy, both economically as well as politically. It was only after 1805 that the Bombay government managed to obtain substantial amounts of credit from alternative sources. In this way, the British gradually reduced their dependence on the banking firms.

As explained by David Hardiman, the indigenous banking firms gradually shifted their focus to tax-farming of the princely states, where the taxes continued to be farmed out for many years. For instance, in Jaipur until 1849, Baroda upto 1862, Kota till 1870, Marwar upto 1884 and Bikaner till 1885. The banking firms like those of the Baroda State continued to finance the local level usury in British and princely areas. According to the report presented by M. Elphinstone, the Governor of Bombay Presidency in 1821, they thrived on this highly lucrative line of business. The British had shown favours to the indigenous banking by not imposing any direct taxes on them.

The British treated the indigenous banking community most favorably especially during 1820's and 1830's. In the Baroda State, they had forced the Maharaja Sayajirao-II Gaikwad to pay the accumulated debts to the bankers. Though they had no larger gains they had extended their support. Similar trends of their policy were visible in other parts of India. According to David Hardiman, the bankers were induced to migrate to Ajmer and later Punjab. In some cases, particular firms were appointed to manage British treasuries, as at Rohlak, Ambala and Ludhiana, where the Marwari firm of Seth Mirjamal Potadar was given the contract. They had also entrusted their Residency treasuries in the Princely States to such bankers. Samal Bechar's firm was appointed for such a job, within the Baroda State.

After the uprising of 1857, several important developments became apparent. The railways, rapidly improved land transport after 1860. The crown government began to take more active role in public works and pushed forward the process of modernization. English-educated intelligentsia of Northern India expanded. But this feature is true mostly of the British India and not the Princely States. So it was a superficial westernisation, and the Indian society was moving along its own, slower paths of change and development. The reduction in the powers of the bankers and the fall in their status in the regional areas began with the disappearance of the regional States (their patrons). The political and the agrarian dislocations of the 1830's and 1840's had stalled the growth of the regional states. The fall in the status of the bankers was temporarily arrested by the patronage extended to them by the British. However, the brutal and destructive twist of the events of 1857 and its aftermath accentuated their problems. The replacement of the East India Company by the Crown and the second Industrial Revolution led to certain major changes. The only option for the indigenous bankers was to adapt or to perish. There was a decline of handicraft industries and certain new commercial and administrative centers were coming up (1860's and 1880's). Trade was shifting from its old centers to the above places along the railway routes. Introduction of British system of coinage, weights and measures, abolition of local treasuries, demand by the colonial authorities for the production of bankers books in the courts, reorganization of tolls, bazars duties, urban taxation and introduction of the new banking system etc. began to take a toll on indigenous banking.

In the 18th century, there are perceptible changes in the social order, which pointed towards the consolidation of new social groups and new relationships between agricultural, commercial and political powers. The requirements of the post – Mughal regimes for cash and legitimacy had strengthened the influence of corporation of merchants, gentry and service class. These classes became more than ‘new elite’, as they were the bearers of a locally rooted culture which emerged beneath the centralised pattern of the Mughal India. The landed magnates and the gentry were employed by the regional states in various capacities. In the Baroda State they performed the dual role of indigenous bankers and the ‘elite’ service gentry (bureaucracy).

The most important function, which they performed, was of financing the armies of the Gaikwads as *bakshis*. In that way, they were able to gain considerable influence over the defence of the State. This had placed them in a powerful position. Secondly, indigenous bankers functioned as a mediatory agency between the Peshwa and the Gaikwads. The Gaikwads had to remit huge sums to Poona under various heads. The bankers, who derived a considerable profit out of each remittance, thus made profit out of each transaction.

With the consolidation of the Gaikwad territories, Baroda State had come into being. The process of consolidation was to a large extent supported by the indigenous bankers, i.e. in the absence of a central treasury, all the aspects of the administration were financed by the banking community. They were funding the State public works as well as city’s administration. Besides, they had also emerged as State officials by the end of the 18th century. In that capacity their had completely taken over the State’s administration and

finance i.e. the bankers had become a de-facto treasury of the Gaikwads. Indigenous bankers, therefore, had gained a strong exerting influence on the State.

In the beginning of the 19th century the British had emerged as a new power. On the West Coast, due to their bearing influence on the ruler, and State officials (like the Dewan), the authority and influence of the bankers were eroded. Gradually they lost their position as military paymaster, on account of the *Sibandi* being disbanded by the British. They also lost their influence as an intermediary agency, because Poona too had passed under the control of the British through the Subsidiary Alliance Treaties. Therefore, except for the remittance on account of the farm of Ahmedabad, no other funds were being remitted. Eventually with the abolition of Pehwaship in 1818-1819, this influence was terminated forever. Besides this reduction in their influences, their control over the ruler was also nullified.

By the end of the second decade of the 19th century, the bankers had almost submitted their authority to the British. The British instead, had become the guarantors of the bankers. The main functions of the indigenous bankers thus remained as supplier of funds (the *Potedars*) and State officials (*Kamavidars*, *Shroffs* and *Manotidars* etc.).

From 1820 onwards, the indigenous bankers came in a constant conflict with the next ruler Sayajirao-II. This had led to a decline in their status and a further decrease in the influence on the Maharaja. The decline of the indigenous bankers did not mean decline in indigenous banking. Indigenous banking continued to exist in a different form i.e., it took

a new shape, it shifted from individuals (i.e. of the *sahukars*) into the hands of one *sahukar* (State). Now, the indigenous banking functioned as a State enterprise. This type of indigenous banking had continued to function through *Sarkari Pedhis* till 1875, when it was abruptly swept away by the beginning of the processes of modernization.

The participation of the *sahukars* in the running of the State got reduced to a very large extent. Gradually, the development of modern banking percolated to the Baroda State. The *sahukars* had tried to mould themselves into the changing trend, i.e., by attempting to initiate a modern bank in 1865. However, they were unsuccessful, the reason for which could be assigned to the policies of the British and the Gaikwads. There could be another reason for the failure i.e. the *sahukars* were the products of old tradition, So, the superimposition of modern structure on the traditional was bound to be unsuccessful. Also, the *sahukars* were not trained on western lines and were not even accustomed to working in new set up. Baroda State was yet to see the birth of the new middle class.

After 1875, the stage for new developments was set. The Baroda State underwent a overall modernization in almost all the spheres. The institution of banking also did not remain untouched. It took a new form, it passed from the control of the State to that of the Government. This is earlier the funds generated out of indigenous banking were utilized for the benefits of the Maharaja alone. Later-with passing of the control in to the hands of the Governments, the funds were utilized for the overall development of the people.

Also there had emerged a new middle class, which had an indirect consciousness of the new processes. The indigenous banking community was a part of that middle class. This generation had already adapted to the new system i.e. to the working of the modern institution of the Bank of Bombay. Their acceptance of adopting such an institution in the Baroda State was far greater. Perhaps this was the reason that they gave an impetus to the formation of the Bank of Baroda.

The Bank of Baroda was a 20th century establishment, with its basic capital formed out of local resources. Thus the processes of indigenous banking had resulted in the formation of a modern institution with indigenous capital.

The indigenous bankers had played an important role in the economy of the Baroda State in the 19th centuries. These bankers had worked in various capacities and had contributed to the growth and development of the economy of the state. The process had begun in the 18th century and had continued throughout the 19th century to a smaller or a larger extent. The requirement of the State to maintain a regular source of cash to their *sibandi* armies had given this opportunity to the bankers. They performed the function of *bakshis* and maintained regular records of the payments made. In order to pay the *bakshis*, the Gaikwads usually granted their villages, later the *parganas* were farmed out. Therefore in that capacity, they began to take part in the revenue administration as *kamavisdars*. On obtaining the *ijara*, a *kamavisdar* had to pay about half of the assessed revenue in advance. In addition, he had to provide *rasad* to the State, for which the bankers and the merchants provided *manoti*. Therefore, they assumed a three-fold role i.e. acted as

manotidars, *sahukars* and *ijaradars* on *kamavisdars*. Since they conducted their principal business in cities and towns, they became an important link between the countryside and the towns and between the towns and the cities.

The bankers particularly enjoyed the right of collecting various taxes rather than land revenue. They collected taxes from the urban centers of Gujarat like Ahmedabad, Baroda, Nadiad and Surat etc, especially of various *mandis* and octroi posts of Ahmedabad. Later, with the authority of important commercial centers passing into the hands of the British, their functions were limited to the Baroda State.

Throughout the 19th century the Baroda State had a well-established network of bankers and traders, within Gujarat and even outside it. The conducive environment provided by the rulers had encouraged many banking firms to settle within the State, like the firms of Khushalchand Ambaidas, Balkrishan Sheth and Arjunji Nathji Trivedi etc.

The practice of getting payments through the *hundis*, drawn on a place other than the receiver's own, was common in the commercial enterprise and was managed systematically. *Varats* and *chitthis* were also used as instruments of credit by the State. The amount transferred through *varats* was very high, all the State used to defray through them the salaries, loans and money on credit. The whole business of credit and money transaction was looked after by the *potedars* who became the back – bone of the State's economy.

The prevalence of different kinds of coins in the State had necessitated the mediation of the *shroffs*, who changed the currency after charging *vata* or *batta* or discount. This had increased the coin circulation.

The banking firms had a number of its agents (*marfatias*) at various urban centers. They occupied an important position in the trading and banking establishment of the firm. They were an integral part of the machinery evolved for the realization of land revenue and commercial taxes and formed the backbone of the trading operations conducted at the urban centers in Gujarat. They were utilized usually for the collection of taxes, other than that of revenue.

The prevalence of *kamavisdari* and *ijaradari* and the involvement of the business class in the agrarian system for financial gain had made the town market the focal point of economy in Western India in the 19th century.

The impact of indigenous banking was seen on the demography of the State. According to Prof. Geeta Bajpai, there was a perceptible increase in the population of the merchant class (Bankers, Money exchangers and Moneylenders) of nearly 169% from 1891 to 1901.

SOCIAL IMPACT

The changes in the society in the 19th century, in the Baroda State, are more reflected in the towns and cities. Prior to the 19th century, the indigenous banking whether practiced by the State or the *sahukars* had changed the social order. This impact was visible in the cases of the social stratification, composition of towns, religious order and the position of women.

The contribution of the banking houses can also be seen in the field of education. For instance, according to the successor of Samal Bechar, the family-firm had provided Rs. 15,000, in form of donation to the Baroda College at the time of its foundation. Perhaps similar contributions were made by the other *sahukars* of the time. The firm of Samal Bechar was also involved in the '*Vidhava Vivah Uttejak Sabha*'. Sheth Todarmal, the then successor, was the head of the *adhiveshan* held at Mumbai, to encourage widow remarriage.

With the emergence of indigenous bankers as the provident elitist groups, there was recognition of *sahukars* as a class of importance. The *sahukari* community consisted of both vanias and brahmins. Therefore, a *mahajan* or *gnat* was formed. Sometimes even the Parsis became a part of it. This association had no rigid rules for the entry, but it was governed with strict discipline. The adoption within a banking family firm or the rights of ownership could not be fixed without the sanction of the *gnat*. Even the Gaikwads had to accept its decisions. The members usually belonged to the well-to-do section of the

society. They looked after each other's interests and usually resolved the disputes within the association. However this feature appears to be almost absent after the 1850's.

The work area of the banking community was usually around their residing place. Therefore they have often been termed as family firms. Due to this, their residing areas had become the hub of activities and gradually other occupational areas developed around them. This had created kinds of colonies or societies. For instance, in the center of the Baroda city is the 'Samal Bachar Ni Pol', 'Mehta Pol' the residence and the working place of Mairal Narayan, and the *Haveli* of HariBhakti is situated in one of the most active areas of the city. Almost all the shops of jewellers and coin changers are found in this area. This had led to the development of town. According to Sheth Dhaval Todarmal Samal Bechar, during the time of Khanderao Gaikwad, (he had his residing place at Nazar baug in the present Mandavi area), the Maharaja had encouraged the Sahukars to reside in the surrounding areas around him.

The contribution of the bankers towards the religious activity was substantial within the Baroda State and outside it. These activities served the dual purpose of providing the bankers with the required credit and goodwill and enhancing their trade and business. Those bankers who had their *pedhis* at Benaras, Mathura, Malwa or Ujjain had well settled networks in terms of business and religion. The religious heads provided them with information, which was sometimes confidential. This kept the religious lines alive in the regions connected with these bankers.

Indigenous bankers are also credited with the construction of many temples within the State. The firm of Mairal Narayan, throughout the century, was given a special allowance called *Devasthan khate* for the maintenance of temples, at Sinor and Baroda. HariBhakti had also built a Rameshvar Mahadev temple at present Vasna road at Baroda. Though there is no clear evidence of it, Mairal Narayan had perhaps built a temple at Benaras.

They were also involved in other public welfare activities like maintaining *Panjra Pols*, *Dharmashalas*, rest-houses etc.

Thus by the end of the 19th century, the indigenous banking had emerged as a very powerful factor in the growth and development of the Baroda State.